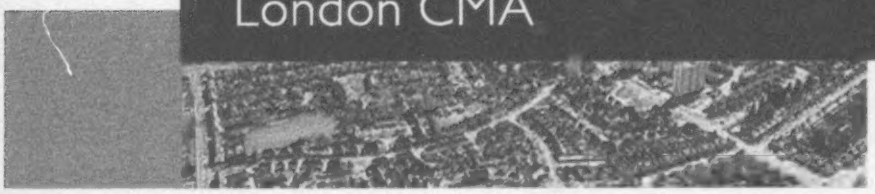
HOUSING MARKET OUTLOOK

London CMA



Canada Mortgage and Housing Corporation

Date Released: Fall 2008

New Home Market

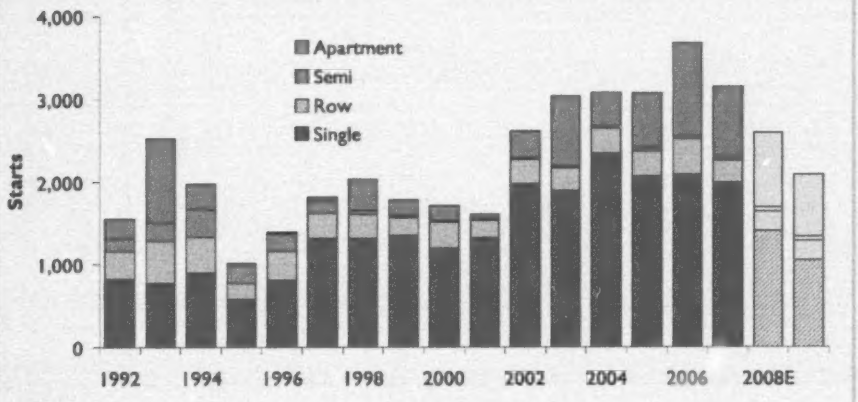
New Home Construction Softens

New home construction is expected to moderate in 2008 and 2009. Some 2,600 new homes are expected to be started in 2008 while foundations of some 2,000 homes will be laid in 2009.

According to CMHC's New Home Sales Survey, a leading indicator of new home construction, demand for new homes is moderating. Sales for all dwelling types during the first half of 2008 were down 29 per cent to 732 units compared to the 1,027 units sold during the same period in 2007. Sales of the most popular dwelling type, single-detached homes, posted a 37 per cent drop during the first half of 2008.

Figure 1

Single-Detached Starts Lead the Drop



Source: CMHC

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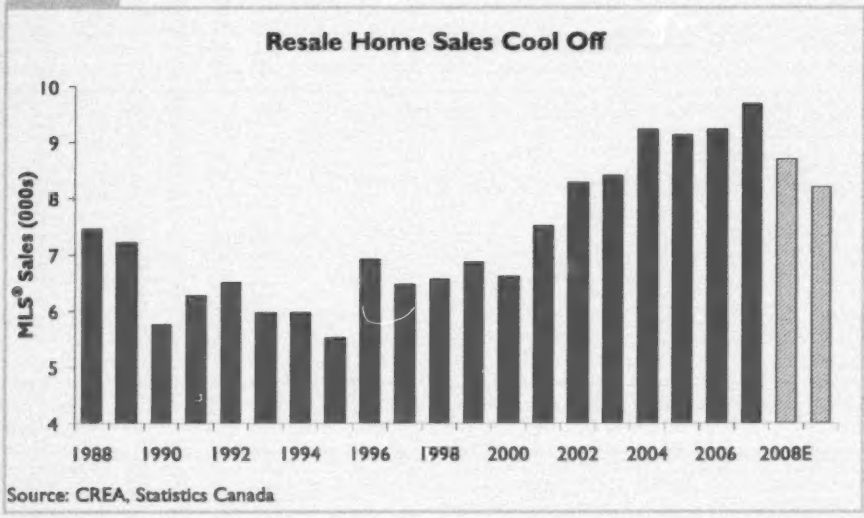
Figure 2



Source: CREA, Statistics Canada

New home sales are also lower due to the abundance of choice in the resale market. In general, some buyers tend to begin their search for suitable homes in the resale market. With more listings in the resale market, more buyers will be able to find what they want in the resale market, resulting in less demand for new homes in 2008 and 2009. Slower price growth in the resale market will also draw many first-time buyers away from new homes.

Construction of single-detached homes will moderate to 1,400 units compared to 1,983 units reached in 2007. While the wealthier move-up buyers will continue to support demand for single-detached homes, rising prices are expected to keep some first time buyers focused on the more affordable resale market or more affordable options. The average price of a new single-detached home is expected to reach $306,000 this year, significantly more expensive than the average of $230,000 for an existing single-detached home in London.

Apartment construction will be relatively strong in 2008 and 2009. Overall apartment starts will reach 905 units in 2008 (838 units recorded in 2007) and many of them will be in the high-end rental category. Demand for these apartments comes mostly from empty nesters and retirees who like the convenience of an apartment lifestyle. These mature renters (aged 55 or more) are the fastest growing population segment in London. They form one of the fastest growing customer bases for rental apartments and the recent boom in high-end rental construction confirms this trend.

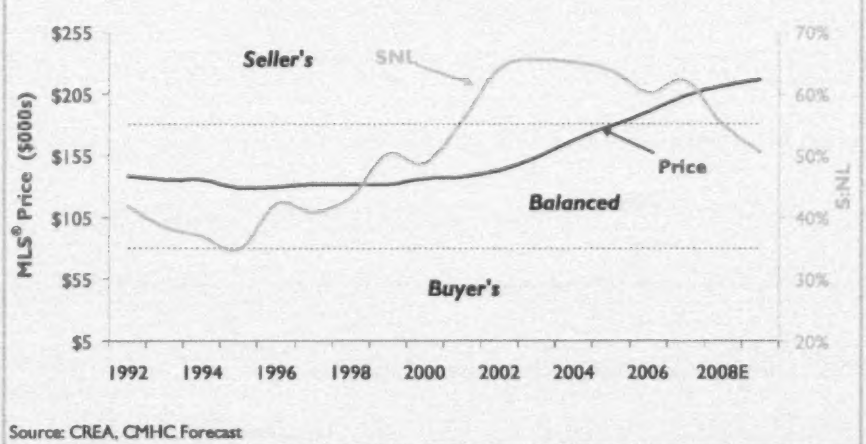
Other customer base includes international students attending university and colleges in the London area. Some wealthier international students tend to choose these higher-end apartments during their stay in London.

Resale Market

Resale Market Tips into Balanced Condition

After the record sales in 2007, the strong sales growth since 2001 has reversed its course, resulting in a cooling off of the resale home market in the London Census Metropolitan Area (CMA). Sales of resale homes

Figure 3



Source: CREA, CMHC Forecast

through the Multiple Listing Service (MLS®) will reach 8,700 units in 2008, down 10 per cent from the 2007 peak. They will fall another 6 per cent in 2009. While higher resale prices have moderated housing demand, the resale market will still remain healthy in 2008 and 2009. Despite some erosion from higher home prices, homeownership continues to be very accessible in London, which helps sustain demand for resale homes.

The supply of newly-listed homes will surpass the record set in 1996. New listings are expected to hit 15,800, up 5 per cent from 2007. With the number of new listings growing and sales declining, the sales-to-new-listings ratio, a leading indicator of price growth and measure of market conditions, will move into the balanced market territory by early 2009. Consequently, price growth is expected to moderate to the same pace as the general rate of inflation. The average price of a resale home in 2008 is forecast to increase by 4 percent to $211,000, and 2.5 per cent in 2009.

Economic Trends

Employment

Employment will contract one per cent in London in 2008 before stabilizing in 2009. Despite expanding service sector employment, London's manufacturing sector will continue to moderate. Ford in St. Thomas has reduced the number of shifts. Toyota is also planning to delay a second shift at their upcoming Woodstock plant

An expanding service sector added jobs to London's economy during the past few years, but growth has flattened. Led by a decline in retail sector's part time hiring, service sector jobs posted a small decrease during the first eight months of 2008. Despite a slower growth, full-time jobs continue to be created in London. These jobs are important to housing demand as it provides stability to go through with a purchase.

Demographics

Net migration is a growing part of London's population growth. According to the 2006 Census, immigrants account for much of the migration to London, followed by intra-provincial migrants. The number of inter-provincial migrants, however, declined since many residents are moving to western Canada.

Latin America and the Arab countries are the largest groups of immigrants who settle in London. Many of them come because their families and friends are already here. Strong job growth during the past few years also encouraged immigrants to select London as their final destination in Canada.

According to the Census 2006, Toronto is the major source of intra-provincial migrants for London and these migrants tend to be young. Aged between 20 and 35, these young migrants have been supporting London's rental and resale markets during the past few years.

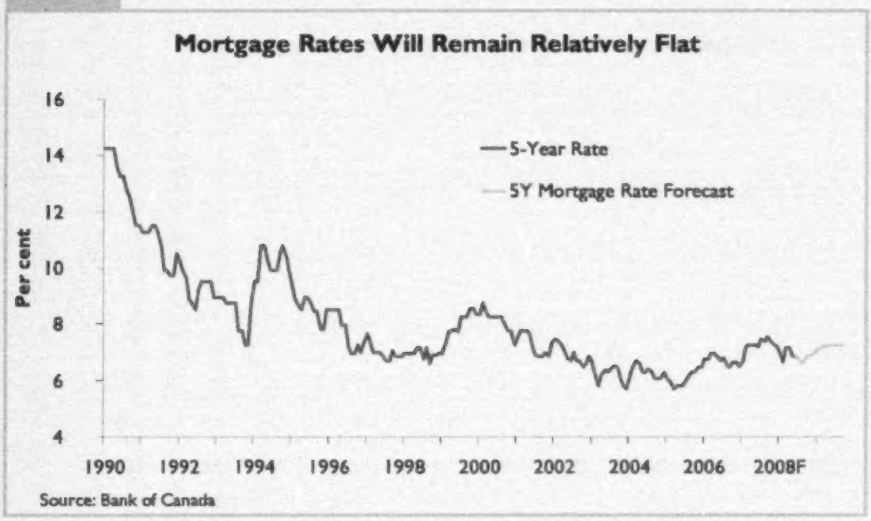
London's low birthrate and aging population will result in smaller families in the long run. The average family size will decrease from 2.45 in 2006 to 2.35 in 2020. London will continue to be a market for single-detached homes, but more of them will likely be bungalows.

Figure 4

Sluggish Employment Growth

Source: Statistics Canada

Figure 5



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Forecast Summary
London CMA
Fall 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	9,133	9,234	9,686	8,700	-10.2	8,200	-5.7
MLS® New Listings	14,329	15,376	15,590	16,220	4.0	16,500	1.7
MLS® Average Price ($)	178,910	190,521	202,908	211,000	4.0	216,300	2.5
New Home Market							
Starts:							
Single-Detached	2,063	2,090	1,983	1,400	-29.4	1,050	-25.0
Multiples	1,004	1,584	1,158	1,210	4.5	1,035	-14.5
Semi-Detached	44	42	42	44	4.8	44	0.0
Row/Townhouse	310	414	278	260	-6.5	240	-7.7
Apartments	650	1,128	838	905	8.0	750	-17.1
Starts - Total	3,067	3,674	3,141	2,610	-16.9	2,085	-20.1
Average Price ($):							
Single-Detached	270,936	273,548	290,342	306,000	5.4	320,000	4.6
Median Price ($):							
Single-Detached	240,000	250,975	266,000	285,000	7.1	300,000	5.3
New Housing Price Index (% chg.)	4.9	5.2	3.6	3.0	-	2.5	-
Rental Market							
October Vacancy Rate (%)	4.2	3.6	3.6	3.2	-0.4	3.2	0.0
Two-bedroom Average Rent (October) ($)	775	790	816	833	-	856	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	243,100	245,600	247,400	249,200	0.7	250,900	0.7
Employment Growth (%)	-0.2	1.0	0.7	0.7	-	0.7	-
Unemployment rate (%)	6.6	6.2	6.1	6.3	-	6.9	-
Net Migration [1]	751	1,650	699	1,200	-	1,200	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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